



DRAFT ANNUAL BUDGET

2020/2021 TO 2022/2023

MEDIUM TERM REVENUE AND EXPENDITURE FORECASTS

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1.1 EXECUTIVE SUMMARY

The Draft 2020/2021 to 2022/2023 Medium Term Revenue and Expenditure Framework (MTREF) Budget deals with the operating budget and tariff proposals as well as the capital budget and funding sources proposals to ensure that Mafube Local Municipality render services to local community in a financially sustainable manner. The application of sound financial management principles for the compilation of Mafube's Long-Term Financial Plan is essential and critical to ensure that the Municipality remains financially viable and that municipal services are provided sustainably, economically and equitably to all communities.

The process of developing the municipality's annual budget is largely guided by the strategic thrusts and operational priorities of Mafube's Integrated Development Plan (IDP) as well as the MTREF that sets out the expected annual revenue and projected expenditure for the budget year under consideration, plus the two outer years. The MTREF Budget Report starts with a discussion of the legislative requirements to which the Municipality must adhere to, the MFMA budget circulars with directives issued by National Treasury and the key budget projections for the next three financial years based on these documents and assumed economic trends. A high level summary of the operating and capital budgets as well as a discussion on the long-term financial sustainability of Mafube will follow with appropriate recommendations. Supporting information in the form of appendices and tables will form part of this report.

1.2 LEGISLATION

In terms of section 15 to 24 of the MFMA the municipal council must at least 90 days before the start of the budget year consider approval of the Draft budget. A Draft budget must be approved before the start of the budget year and is approved by the adoption by the council of a resolution referred to in section 17(3)(a)(i)

- Must be approved together with the adoption of resolutions as may be 17(3)(a)(i); and necessary;
- Imposing any municipal tax for the budget year;
- Setting any municipal tariffs for the budget year;

- Approving measurable performance objectives for revenue from each source and for each vote in the budget;
- Approving any changes to the municipality's integrated development plan
- Approving any changes to the municipality's budget-related policies. source and for each vote in the budget; plan; and

The accounting officer of a municipality must submit the approved Draft budget to the National Treasury and the relevant provincial treasury.

A Draft budget of a municipality must be a schedule in the prescribed format setting out realistically anticipated revenue for the budget year from each revenue source; appropriating expenditure for the budget year under the different votes of the municipality; setting out indicative revenue per revenue source and projected expenditure by vote for the two financial years following the budget year; setting out estimated revenue and expenditure by vote for the current year; and actual revenue and expenditure by vote for the financial year preceding the current year; and statement containing any other information required by section 215 (3) of the Constitution or as may be prescribed.

A Draft budget must generally be divided into a capital and operating budget in accordance with international best practice, as may be prescribed.

1.3 MFMA CIRCULARS

When compiling an annual budget in terms of legislation the budget circulars from National Treasury must also be taken into consideration. MFMA Circular No 98 and 99 will now be discussed.

National Treasury issued two budget circulars during December 2019 and March 2020. MFMA Budget Circular No 98 issued on 6 December 2019 is attached hereto as Appendix 1 and MFMA Budget Circular No 99 issued on 9 March 2020 is attached hereto as Appendix 2.

Both of these circulars deals with the key focus areas for the 2020/2021 budget process; Local Government Conditional Grants and additional allocations; Municipal Standard Chart of Accounts (mSCOA); reporting indicators; borrowing for capital infrastructure; maximising the revenue generation of the municipal revenue base; Eskom bulk tariff increases; water conservation and water demand management; funding choices and management issues relating to employee related costs and remuneration of councillors; conditional transfers to municipalities; the Municipal Budget and Reporting Regulations; and, the budget process and submissions of the 2020/2021 to 2022/2023 MTREF.

All of the issues effecting the compilation of our budget to ensure that our anticipated revenue streams and funding sources for our operating and capital budgets are affordable and sustainable were taken into consideration. This was also taken into consideration when the budget related policies were reviewed.

1.4 BUDGET PROJECTIONS

In Table 1 below the budget projection issues are depicted with the last two years actual percentage increases and the assumed next three financial year's increases. Based on the financial framework, financial strategies and financial policies featuring in the Long-Term Financial Plan, the MTREF Budget was compiled. Key assumptions relating to the MTREF Budget also includes the following:

- National government grants for the years 2020/2021 to 2022/2023 are as per the Division of Revenue Bill (DoRA);
- Provincial government grants for the years 2020/2021 to 2022/2023 are as promulgated in the Provincial Gazette;
- The headline inflation rate (consumer price index or CPI) was 4.7% for the 2018/2019 financial year and is estimated at 4.1% for the 2019/2020 financial year. The estimated CPI for the 2020/2021 financial year is 4.5% and for the next two indicative financial years at 4.6% (2021/2022) and 4.6% (2022/2023) respectively (National Treasury MFMA Circular No 99 dated 9 March 2020;

- The South African Local Government Bargaining Council (SALGBC) determines the cost of living increases by mutual agreement between the employer and the unions. A three (3) year wage agreement was concluded on 15 August 2018 providing guidance for the period starting from 1 July 2018 to 30 June 2021. This agreement prescribes the use of the projected CPI increase for 2019/ 2020 financial year, plus 1.25% for the 2020/2021 financial year. The 2020/2021 financial year is the last year of the current agreement and a new agreement will have to be negotiated. However, the remaining two years were estimated using the same principle;

TABLE 1: 2020/2023 MTREF KEY BUDGET PROJECTIONS					
Description	2018/2019	2019/2020	2020/2021	2021/2022	2022/2023
GROWTH PARAMETERS					
GDP Growth	0,70%	0,30%	0,90%	1,30%	1,60%
Headline inflation rate	4,70%	4,10%	4,50%	4,60%	4,60%
EMPLOYEE RELATED COST					
Wage bill cost of living increases	7,00%	6,70%	5,75%	6,15%	6,15%
Estimated Notch increases			2,40%	2,40%	2,40%
REVENUE INCREASES					
Property rates	30,533,270,00	19,374,080,91	33,522,178,19	35,064,198,00	36,677,151,51
Service charges - water revenue	35,683,168,00	43,370,940,10	45,366,003,00	47,452,839,00	49,635,670,00
Service charges - sanitation revenue	16,469,304,30	19,791,179,74	20,701,574,00	21,653,846,00	22,649,923,00
Service charges - refuse revenue	15,046,656,00	14,429,623,19	15,093,386,00	15,787,682,00	16,513,915,00
GRANTS: NATIONAL DEPARTMENTS					
Local Government Equitable Share	86,279,000,00	95,847,000,00	103,074,000,00	111,181,000,00	118,715,000,00
Finance Management Grant	2,415,000,00	2,880,000,00	3,000,000,00	3,300,000,00	3,300,000,00
EPWP Incentive	-	1,000,000,00	-	-	-
Municipal Infrastructure Grant (MIG)	22,064,000,00	22,444,000,00	22,318,000,00	23,942,000,00	25,130,000,00
Water services infrastructure grant	15,000,000,00	10,000,000,00	15,000,000,00	20,000,000,00	20,960,000,00
Integrated National Electricity Programme Grant	-	5,000,000,00	5,276,000,00	10,192,000,00	9,099,000,00

1.5 HIGH LEVEL OPERATING BUDGET SUMMARY

The high level draft operating budget per vote is set out in Table A4 below. The classifications as per the revised mSCOA government financial statistics votes are used by National Treasury to compare budget trends in local government.

The tabled operating budget depicts of R172 730 999 for the 2020/2021 financial year.

Calculations at the bottom of Table A4 below confirms the operational deficit of R172 730 999 compared with the 2019/2020 adjustments budget operating surplus of R366.

The operating budget is financed through realistically anticipated revenue streams and with the increased investment in infrastructure the Municipality projects a broadening of its current tax base. This will result in additional revenue that will flow into the municipal coffers but this growth has not been taken into consideration and will be evaluated during the year.

FS205 Mafube - Table A4 Budgeted Financial Performance (revenue and expenditure)

Description	Ref	2016/17	2017/18	2018/19	Current Year 2019/20		2020/21 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Budget Year 2020/21	Budget Year +1 2021/22	Budget Year +2 2022/23
R thousand	1								
Revenue By Source									
Property rates	2	23,319,097,00	29,793,020,00	–	19,374,080,91	32,047,972,00	33,522,178,19	35,064,198,00	36,677,151,51
Service charges - electricity revenue	2	-	-	–	-	-	-	-	-
Service charges - water revenue	2	33,803,437,00	39,591,482,00	–	43,370,940,10	43,370,940,10	45,366,003,00	47,452,839,00	49,635,670,00
Service charges - sanitation revenue	2	17,010,671,00	19,306,386,00	–	19,791,179,74	19,791,179,74	20,701,574,00	21,653,846,00	22,649,923,00
Service charges - refuse revenue	2	11,602,347,23	11,682,862,00	–	14,429,623,19	14,429,623,19	15,093,386,00	15,787,682,00	16,513,915,00
Rental of facilities and equipment		135,250,00	130,138,00		159,869,00	159,869,00	167,222,97	174,915,23	182,961,33
Interest earned - external investments		122,769,00	879,902,00		216,136,00	216,136,00	226,078,26	236,477,86	247,355,84
Interest earned - outstanding debtors		23,607,036,00	16,028,618,00		27,904,159,00	16,028,618,00	16,765,934,00	17,537,167,00	18,343,877,00
Dividends received		2,567,331,00	2,270,449,00		3,034,654,96	3,034,654,96	3,174,249,08	3,320,264,54	3,472,996,71
Fines, penalties and forfeits		125,327,00	9,250,00		210,400,00	210,400,00	220,078,40	230,202,01	240,791,30
Licences and permits						-			
Agency services						-			
Transfers and subsidies		91,448,944,00	91,262,369,00		101,794,000,00	101,794,000,00	108,307,000,00	116,892,000,00	122,015,000,00
Other revenue	2	3,596,649,00	898,391,00	–	373,719,00	373,719,00	805,910,00	408,891,94	427,700,96
Gains		2,191,000,00	585,000,00						
Total Revenue (excluding capital transfers and contributions)		209,529,858,23	212,437,867,00	–	230,658,761,89	231,457,111,98	244,349,613,91	258,758,483,57	270,407,342,66
Expenditure By Type									
Employee related costs	2	83,924,907,00	84,856,881,00	–	99,134,454,16	99,134,454,16	103,694,639,05	108,464,592,44	113,453,963,70
Remuneration of councillors		5,487,409,00	5,800,615,00		6,450,487,84	6,450,487,84	6,197,463,00	6,482,546,30	6,780,743,43
Debt impairment	3	99,956,040,00	83,350,500,00		9,630,000,00	47,031,000,00	87,101,272,50	91,107,931,04	95,298,895,86
Depreciation & asset impairment	2	55,930,957,00	55,218,611,00	–	15,260,000,00	5,260,000,00	57,703,448,50	60,357,807,13	63,134,266,25
Finance charges		42,519,369,00	41,287,517,00		7,349,200,00	7,349,200,00	43,145,455,27	45,130,146,21	47,206,132,93
Bulk purchases	2	20,231,330,00	40,261,545,00	–	2,578,000,00	2,578,000,00	42,073,314,53	44,008,686,99	46,033,086,59
Other materials	8								
Contracted services		2,524,582,00	1,929,523,00	–	6,500,000,00	5,000,000,00	5,230,000,00	5,470,580,00	5,722,226,68
Transfers and subsidies		3,428,952,00	-	–	-	-	-	-	-
Other expenditure	4, 5	64,878,674,00	38,592,645,00	–	75,983,558,56	58,653,603,56	71,935,020,13	75,244,031,06	78,705,256,49
Losses		3,068,978,00							
Total Expenditure		381,951,198,00	351,297,837,00	–	222,885,700,55	231,456,745,55	417,080,612,97	436,266,321,16	456,334,571,94
Surplus/(Deficit)		-172,421,339,77	-138,859,970,00	–	7,773,061,34	366,43	-172,730,999,06	-177,507,837,59	-185,927,229,28

1.6 SUMMARY OF OPERATING REVENUE AND EXPENDITURE

In Table A4 below the same information as in Tables A2 and A3 are split up between operating revenue, operating expenditure and grants utilised for capital expenditure. The net results stay the same.

Anticipated operating revenue for 2020/2021 is estimated at R244 349 613 or R12 892 502 (5.3%) more than the 2019/2020 approved adjustments budget revenue of R231 457 111. The increase includes an amount of R7 227 000 (R103 074 000- R95 847 000) which relates to the projected increase in the Equitable Share which is above the published CPI.

Operating expenditure for 2020/2021 is estimated at R417 080 612 or R185 623 867 (44.5%) more than the adjustments budget expenditure of R231 456 745 for 2019/2020 financial year. The 44.5% increase is as a result of bulk purchases and non-cash items that have been appropriate budgeted for.

FS205 Mafube - Table A4 Budgeted Financial Performance (revenue and expenditure)

FS205 Marube - Table A4 Budgeted Financial Performance (revenue and expenditure)									
Description	Ref	2016/17	2017/18	2018/19	Current Year 2019/20		2020/21 Medium Term Revenue & Expenditure Framework		
R thousand	1	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Budget Year 2020/21	Budget Year +1 2021/22	Budget Year +2 2022/23
Revenue By Source									
Property rates	2	23,319,097,00	29,793,020,00	–	19,374,080,91	32,047,972,00	33,522,178,19	35,064,198,00	36,677,151,51
Service charges - electricity revenue	2	-	-	–	-	-	-	-	-
Service charges - water revenue	2	33,803,437,00	39,591,482,00	–	43,370,940,10	43,370,940,10	45,366,003,00	47,452,839,00	49,635,670,00
Service charges - sanitation revenue	2	17,010,671,00	19,306,386,00	–	19,791,179,74	19,791,179,74	20,701,574,00	21,653,846,00	22,649,923,00
Service charges - refuse revenue	2	11,602,347,23	11,682,862,00	–	14,429,623,19	14,429,623,19	15,093,386,00	15,787,682,00	16,513,915,00
Rental of facilities and equipment		135,250,00	130,138,00		159,869,00	159,869,00	167,222,97	174,915,23	182,961,33
Interest earned - external investments		122,769,00	879,902,00		216,136,00	216,136,00	226,078,26	236,477,86	247,355,84
Interest earned - outstanding debtors		23,607,036,00	16,028,618,00		27,904,159,00	16,028,618,00	16,765,934,00	17,537,167,00	18,343,877,00
Dividends received		2,567,331,00	2,270,449,00		3,034,654,96	3,034,654,96	3,174,249,08	3,320,264,54	3,472,996,71
Fines, penalties and forfeits		125,327,00	9,250,00		210,400,00	210,400,00	220,078,40	230,202,01	240,791,30
Licences and permits						-			
Agency services						-			
Transfers and subsidies		91,448,944,00	91,262,369,00		101,794,000,00	101,794,000,00	108,307,000,00	116,892,000,00	122,015,000,00
Other revenue	2	3,596,649,00	898,391,00	–	373,719,00	373,719,00	805,910,00	408,891,94	427,700,96
Gains		2,191,000,00	585,000,00						
Total Revenue (excluding capital transfers and contributions)		209,529,858,23	212,437,867,00	–	230,658,761,89	231,457,111,98	244,349,613,91	258,758,483,57	270,407,342,66
Expenditure By Type									
Employee related costs	2	83,924,907,00	84,856,881,00	–	99,134,454,16	99,134,454,16	103,694,639,05	108,464,592,44	113,453,963,70
Remuneration of councillors		5,487,409,00	5,800,615,00		6,450,487,84	6,450,487,84	6,197,463,00	6,482,546,30	6,780,743,43
Debt impairment	3	99,956,040,00	83,350,500,00		9,630,000,00	47,031,000,00	87,101,272,50	91,107,931,04	95,298,895,86
Depreciation & asset impairment	2	55,930,957,00	55,218,611,00	–	15,260,000,00	5,260,000,00	57,703,448,50	60,357,807,13	63,134,266,25
Finance charges		42,519,369,00	41,287,517,00		7,349,200,00	7,349,200,00	43,145,455,27	45,130,146,21	47,206,132,93
Bulk purchases	2	20,231,330,00	40,261,545,00	–	2,578,000,00	2,578,000,00	42,073,314,53	44,008,686,99	46,033,086,59
Other materials	8								
Contracted services		2,524,582,00	1,929,523,00	–	6,500,000,00	5,000,000,00	5,230,000,00	5,470,580,00	5,722,226,68
Transfers and subsidies		3,428,952,00	-	–	-	-	-	-	-
Other expenditure	4, 5	64,878,674,00	38,592,645,00	–	75,983,558,56	58,653,603,56	71,935,020,13	75,244,031,06	78,705,256,49
Losses		3,068,978,00							
Total Expenditure		381,951,198,00	351,297,837,00	–	222,885,700,55	231,456,745,55	417,080,612,97	436,266,321,16	456,334,571,94
Surplus/(Deficit)		-172,421,339,77	-138,859,970,00	–	7,773,061,34	366,43	-172,730,999,06	-177,507,837,59	-185,927,229,28

1.7 OPERATING REVENUE FRAMEWORK

For Mafube Municipality to continue improving the quality of services provided to its citizens, it needs to generate the required revenue. In these tough economic times strong revenue management is fundamental to the financial sustainability of every municipality. The reality is that we are faced with development backlogs and poverty. The expenditure required to address these challenges will inevitably always exceed available funding; hence difficult choices have to be made in relation to tariff increases and balancing expenditures against realistically anticipated revenues.

The municipality's revenue strategy is built around the following key components:

- National Treasury's guidelines and macro-economic policy;
- Growth in the Municipality and continued economic development;
- Efficient revenue management, which aims to ensure a 65 per cent (65%) annual collection rate for property rates and other key service charges;
- Achievement of full cost recovery of specific user charges especially in relation to trading services;
- Determining the tariff escalation rate by establishing/calculating the revenue requirement of each service;
- The municipality's Property Rates Policy approved in terms of the Municipal Property Rates Act, 2004 (Act 6 of 2004) (MPRA);
- The implementation of the new valuation roll;
- Increase ability to extend new services and recover costs;
- The municipality's Indigent Policy and rendering of free basic services; and
- Tariff policies of the Council.

1.8 SUMMARY OF OPERATING REVENUE BY SOURCE

It must be noted that Mafube Local Municipality is in the process to develop a new valuation roll. Municipality expects to bill R 33.5 million for the year 2020/2021 on Property Rates, also the municipality will be implementing the new valuation roll effective from 01 July 2020.

FS205 Mafube - Table A1 Budget Summary

Description R thousands	2016/17	2017/18	2018/19	Current Year 2019/20				2020/21 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2020/21	Budget Year +1 2021/22	Budget Year +2 2022/23
Financial Performance										
Property rates	23,319	29,793	-	19,374	32,048	-	-	33,522	35,064	36,677
Service charges	62,416	70,581	-	77,592	77,592	-	-	81,161	84,894	88,800
Investment revenue	123	880	-	216	216	-	-	226	236	247
Transfers recognised - operational	91,449	91,262	-	101,794	101,794	-	-	108,307	116,892	122,015
Other own revenue	32,223	19,922	-	31,683	19,807	-	-	21,133	21,671	22,668
Total Revenue (excluding capital transfers and contributions)	209,530	212,438	-	230,659	231,457	-	-	244,350	258,758	270,407

Property rates and taxes

It must be noted that Mafube Local Municipality is in the process implementing a new valuation roll. Municipality expects to bill R 33 522 178 for the year 2020/2021 on Property Rates.

Service charges

Service charges comprises of the following: water, refuse removal, sanitation. All services charges will increase by 4.5% as per the projected inflation rate. With these increases the services charges for 2020/2021 budget will amount to R 81 160 963.

In line with the formats prescribed by the Municipal Budget and Reporting Regulations, capital transfers and contributions are excluded from the operating statement, as inclusion of these revenue sources would distort the calculation of the operating surplus/deficit.

- Water being the largest largest revenue source totalling **R 45 366 003**;
- The second largest source is sanitation which totals to **R 20 701 574**;
- Refuse is the third largest source of revenue totalling **R 15 093 386**;

The financial sustainability of 2020/2021 to 2022/2023 MTREF is largely dependent on the collection level of billed income. Provision is made for a collection level of close to 65%, to improve from this, the municipality will have to implement more robust credit control measures.

Revenue generated from property rates and services charges forms a significant percentage of the revenue basket for the Municipality. Rates and service charge revenues comprise **29%** of the total revenue mix. In the 2020/21 financial year, revenue from rates and services charges totalled **R114 million**. In the above table revenue foregone arising from discounts and rebates associated with the tariff policies of the Municipality have been taken into account for both property rates and service charges.

Tariffs, rates and surcharges increase for municipal services and other:

- Assessment Rates: 4.50%
- Water: 4.50%
- Sewer: 4.50%
- Refuse: 4.50%
- Other: 4.50%

Operating Grants

Grants allocation are as per 2020/2021 DoRA published by the National Treasury.

Grants and subsidies			
COA	Type	Item Description	Amounts
SC	I	Local Government Equitable Share	103,074,000,00
SC	I	Finance Management Grants	3,000,000,00
			106,074,000,00

1.9 SUMMARY OF OPERATING EXPENDITURE FRAMEWORK

The municipality's expenditure framework for the 2020/2021 budget and MTREF is informed by the following:

- The asset renewal strategy and the repairs and maintenance plan;
- Balanced budget constraint (operating expenditure should not exceed operating revenue) unless there are existing uncommitted cash-backed reserves to fund any deficit;
- Funding of the budget over the medium-term as informed by Section 18 and 19 of the MFMA;
- The capital programme is aligned to the asset renewal strategy and backlog eradication plan;
- Operational gains and efficiencies will be directed to funding the capital budget and other core services; and
- Strict adherence to the principle of no project plans no budget. If there is no business plan no funding allocation can be made.

The following table gives a breakdown of the main expenditure categories for the 2020/2021 financial year

FS205 Mafube - Table A4 Budgeted Financial Performance (revenue and expenditure)

2020/21 Budgeted Financial Performance (Revenue and Expenditure)											
Description	Ref	2016/17	2017/18	2018/19	Current Year 2019/20				2020/21 Medium Term Revenue & Expenditure Framework		
R thousand	1	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2020/21	Budget Year +1 2021/22	Budget Year +2 2022/23
Expenditure By Type											
Employee related costs	2	83,924,907,00	84,856,881,00	-	99,134,454,16	99,134,454,16	103,694,639,05	108,464,592,44	113,453,963,70		
Remuneration of councillors		5,487,409,00	5,800,615,00		6,450,487,84	6,450,487,84	6,197,463,00	6,482,546,30	6,780,743,43		
Debt impairment	3	99,956,040,00	83,350,500,00		9,630,000,00	47,031,000,00	87,101,272,50	91,107,931,04	95,298,895,86		
Depreciation & asset impairment	2	55,930,957,00	55,218,611,00	-	15,260,000,00	5,260,000,00	57,703,448,50	60,357,807,13	63,134,266,25		
Finance charges		42,519,369,00	41,287,517,00		7,349,200,00	7,349,200,00	43,145,455,27	45,130,146,21	47,206,132,93		
Bulk purchases	2	20,231,330,00	40,261,545,00	-	2,578,000,00	2,578,000,00	42,073,314,53	44,008,686,99	46,033,086,59		
Other materials	8										
Contracted services		2,524,582,00	1,929,523,00	-	6,500,000,00	5,000,000,00	5,230,000,00	5,470,580,00	5,722,226,68		
Transfers and subsidies		3,428,952,00	-	-	-	-	-	-	-		
Other expenditure	4, 5	64,878,674,00	38,592,645,00	-	75,983,558,56	58,653,603,56	71,935,020,13	75,244,031,06	78,705,256,49		
Losses		3,068,978,00									
Total Expenditure		381,951,198,00	351,297,837,00	-	222,885,700,55	231,456,745,55	417,080,612,97	436,266,321,16	456,334,571,94		

Employee related cost

The current Salary and Wage Collective Agreement covers a period period 01 July 2018 to 30 June 2021 which indicate that for the financial 2020/2021 salaries should be increased with CPI plus 1.5% which is 6%

The budgeted allocation for employee related costs for the 2020/2021 financial year totals **R 103 694 639** (excluding Councillors remuneration), which equals to **25%** of the total operating expenditure. Filling of critical positions in terms of the approved organisational structure were considered as well as the annual increment based on the wage agreement.

Remuneration of Councillors

Municipalities are advised to budget for the actual costs approved in accordance with the Government Gazette on the Remuneration of Public Office Bearers Act: Determination of Upper Limits of Salaries, Allowances and Benefits of different members of municipal councils published by the Department of Cooperative Governance. Any overpayment to councilors contrary to the upper limits as published by the Minister of Cooperative Governance and Traditional Affairs will be irregular expenditure in terms of section 167 of the MFMA and must be recovered from the councilor(s) concerned.

Section 17(3)(k) of the MFMA determines that as part of the budget resolutions the proposed cost to the municipality for the budget year of the salary, allowances and benefits of each political office bearer, Municipal Manager, Chief Financial Officer and senior manager reporting to the Municipal Manager must be disclosed. Since the above-mentioned do not qualify for notch increases an overall increase percentage of 4.0% were used.

The total proposed cost to the municipality packages budgeted for Councillors, based on a Grading of 3 calculated in terms of Government Notice March 2020, are:

a) Mayor	:R860 859
b) Speaker	:R688 688
c) Exco members	:R360 193
d) Portfolio committee chairpersons	:R349 618
e) Ordinary Council members	:R272 430

Section 56 managers remuneration

With regard to senior managers (Municipal Manager and section 56 managers reporting directly to the Municipal Manager) the total proposed cost to the municipality packages budgeted for senior management are:

a) Municipal Manager	:R1 442 102
b) Chief Financial Officer	:R1 063 115
c) Director: Corporate Services	:R1 063 115
d) Director: Planning and Infrastructure	:R1 063 115
e) Director: Community Services	:R 930 224

Investments

Section 17(3)(f) of the MFMA determines that as part of the budget resolutions, particulars of the municipality's investments must be disclosed. Mafube as at 18 May 2020 had

R15 million cash reserves at the following banking institutions:

a) Absa current account	:R 25 834.45
b) Absa investment account	:R 1 307.00
c) FNB current account	:R 14 584.81
d) FNB investment account	: <u>R15 232 971.06</u>
TOTAL	: <u>R15 274 697.32</u>

Depreciation

Provision for depreciation and asset impairment has been informed by the Municipality's Asset Management Policy as well as the GRAP standards. Note that the implementation of GRAP 17 accounting standard has meant bringing a range of assets previously not included in the assets register onto the register. This has resulted in a significant increase in depreciation relative to previous years. The recurring audit finding from the Auditor General in terms of the depreciation was also taken into account when compiling the budget.

Finance charges

Finance charges consist primarily of the payment of interest on arrears creditors' accounts amounting to R43 145 455. Municipal revenue and cash flows are expected to remain under pressure due to high balance in Rural maintenance and Eskom debt.

Repairs and maintenance

Repair and Maintenance comprise of amongst other the purchase of materials for maintenance of roads, infrastructure (water & sanitation) that totals to R 18 545 580 for the 2020/2021 budget year.

Other expenditure

Other expenditure comprises of various line items relating to the daily operations of the municipality and totals to R71 935 020 for the 2020/2021 budget.

Debts impairment

A provision for debt impairment is made for 2020/2021 to the amount of R87 101 272. This forms one of the non-cash items and was informed by impairment of outstanding debtors amounting to R83 350 500 and the audited performance for 2017/2018.

Indigents

The social package assists households that are poor or face other circumstances that limit their ability to pay for services. To receive these free services the households are required to register in terms of the Municipality Indigent Policy. The target is to register 10 000 or more indigent households during the 2020/2021 financial year, a process reviewed annually.

The cost of the social package of the registered indigent households is largely financed by national government through the local government equitable share received in terms of the annual Division of Revenue Act.

1.10 CAPITAL EXPENDITURE

Table A5 below depicts the capital programme per funding source over the MTREF.

It is notable that grant funding contribute 100% of the total capital budget expenditure for the 2020/2021 financial year.

Vote Description	2016/17	2017/18	Current year 2019/2020		2020/2021 MTREF	2020/2021 MTREF	2020/2021 MTREF
					Budget Year	Budget Year +1	Budget Year +2
R thousand	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	2020/21	2021/22	2022/23
Capital Expenditure - Functional							
Finance and administration	2,239,788,00	132,490,00	7,450,000,00	2,950,000,00	-	-	3,000,000,00
Sport and recreation			280,000,00	280,000,00	1,469,482,00	1,077,390,00	1,256,500,00
Road transport			1,536,708,00	1,536,708,00	3,678,180,51	-	9,086,387,00
Energy sources			5,000,000,00	5,000,000,00	5,276,000,00	10,192,000,00	9,099,000,00
Water management			17,162,636,00	17,162,636,00	31,054,437,41	41,667,510,00	31,490,614,00
Other PMU (Tools of trade)	4,660,503,00	19,503,291,00	10,500,000,00	10,500,000,00	15,397,00	613,478,00	728,366,00
Total Capital Expenditure - Functional	6,900,291,00	19,635,781,00	41,929,344,00	37,429,344,00	41,493,496,92	53,550,378,00	54,660,867,00

All capital grants that have been allocated to the municipality are conditional and are geared towards alleviation of basic services and infrastructure backlogs. These have been determined as per the Division of Revenue Act (DoRA).

The Municipal Infrastructure Grant (MIG) allocation of **R22.3 million** has been allocated to different infrastructure projects.

Project description	Amount	Status
PMU (Salaries, Operational expenses)	R1 115 900	Operational
Namahadi: Upgrading of Gravel Roads to Paved Roads and Storm Water Drainage (4,7km)(Second km) (MIS:174361)	R3 678 180	Construction
Qalabotjha/Villiers: Rehabilitation of Sports Ground	R1 469 482	Construction
Namahadi/Frankfort: Construction of New Water Pipeline from Frankfort WTW to Namahadi Reservoir - 2 year project	R16 054 437	Construction
TOTAL CAPITAL EXPENDITURE	R22 317 999	

The Water and Sanitation Infrastructure Grant (WSIG) allocation of **R15 million** has been budgeted for water pipe line and addressing water leaks around four towns of the municipality.

Whilst the Integrated National Energy Grant (INEG) allocation of **R5 million** is earmarked for the electrification network.

1.11 OVERVIEW OF ALIGNMENT OF ANNUAL BUDGET WITH THE INTEGRATED DEVELOPMENT PLAN (IDP)

The Constitution mandates local government with the responsibility to exercise local developmental and cooperative governance. The eradication of imbalances in South African society can only be realised through a credible integrated developmental planning process.

Municipalities in South Africa need to utilise integrated development planning as a method to plan future development in their areas and so find the best solutions to achieve sound long-term development goals. A municipal IDP provides a five year strategic programme of action aimed at setting short, medium and long term strategic and budget priorities to create a development platform, which correlates with the term of office of the political incumbents. The plan aligns the resources and the capacity of a municipality to its overall development aims and guides the municipal budget. An IDP is therefore a key instrument which municipalities use to provide vision,

leadership and direction to all those that have a role to play in the development of a municipal area. The IDP enables municipalities to make the best use of scarce resources and speed up service delivery.

The Constitution requires local government to relate its management, budgeting and planning functions to its objectives. This gives a clear indication of the intended purposes of municipal integrated development planning. Legislation stipulates clearly that a municipality must not only give effect to its IDP, but must also conduct its affairs in a manner which is consistent with its IDP.

The seven strategic objectives or key performance areas for the 2020/2023 MTREF and further planning refinements that have directly informed the compilation of the budget, are as follows:

- KPA 1: Governance and Stakeholder Participation;
- KPA 2: Financial Sustainability;
- KPA 3: Institutional Transformation;
- KPA 4: Physical Infrastructure and Services;
- KPA 5: Planning and Economic Development;
- KPA 6: Safety and Environmental Management; and
- KPA 7: Social and Community Development.

In order to ensure integrated and focused service delivery between all spheres of government it was important for the municipality to align its budget priorities with that of national and provincial government. All spheres of government place a high priority on infrastructure development, economic development and job creation, efficient service delivery, poverty alleviation and building sound institutional arrangements.

Local priorities were identified as part of the IDP review process which is directly aligned to that of the national and provincial priorities.

In line with the MSA, the IDP constitutes a single, inclusive strategic plan for the Municipality. The five-year programme responds to the development challenges and opportunities faced by Mafube Municipality by identifying the key performance and focus areas to achieve the strategic objectives mentioned above.

The 2020/2021 to 2022/2023 MTREF has therefore been directly informed by the IDP revision process and the attached SA 4, 5 and 6 tables provide a reconciliation between the IDP strategic objectives and operating revenue, operating expenditure and capital expenditure.

1.12 MEASURABLE PERFORMANCE OBJECTIVES AND INDICATORS

Performance Management is a system intended to manage and monitor service delivery progress against the identified strategic objectives and priorities. In accordance with legislative requirements and good business practices as informed by the National Framework for Managing Programme Performance Information, the Municipality has now developed and implemented a performance management system which is constantly refined as the integrated planning process unfolds. The Municipality targets, monitors, assess and reviews organisational performance which in turn is directly linked to individual employee's performance.

Mafube Municipality is continuously ensuring that a culture of performance management is institutionalised. Therefore, performance agreements with senior management (Directors) are concluded. This process will ensure that Integrated Development Planning objectives and key performance indicators (KPI's) are owned and executed by the responsible directorates. Furthermore, the Performance Audit Committee (as part of the Audit Committee) ensures that Council is involved in the auditing of Non-Financial Performance information. A Performance Management Policy Framework also exists. This Policy Framework encapsulates the various processes, roles and responsibilities necessary to execute performance management and measurement.

SA 7 schedule illustrates Mafube Municipality's measurable performance objectives and indicators.

1.13 OVERVIEW OF BUDGET FUNDING INCLUDING FUNDING COMPLIANCE

National Treasury requires that the municipality assess its financial sustainability against fourteen different measures that look at various aspects of the financial health of the municipality. These measures are contained in SA 10 of the attached Schedule A. All the information comes directly from the annual budgeted statements of financial performance, financial position and cash flows. The funding compliance measurement table essentially measures the degree to which the proposed budget complies with the funding requirements of the MFMA.

1.14 MONTHLY TARGETS FOR REVENUE AND CASH FLOW

We carefully monitor the payment and collection rates and its unfortunate that the customer base of Mafube pays less than 18% of their billed accounts. Through the financial support and incentives envisaged (prepaid water meters) and through our new budget related policies developed we are hopeful that the payment rate will increase to more than 65% in the next financial year. See attached SA schedules 25 to 30.

1.15 LONG-TERM FINANCIAL SUSTAINABILITY

Financial sustainability over the long-term has to do with the maintenance of high priority expenditure programmes, both operating and capital, to ensure program sustainability and desired quality of services to be rendered. There must also be rates and service charges stability and predictability in the overall rate burden by ensuring reasonable rates and service charges to fund programmes. Fair sharing in the distribution of council resources and the attendant taxation between current and future ratepayers (intergenerational equity) must also be promoted to ensure that the current generation are not over-burdened for the use of infrastructure by future generations – in other words sound long-term financial management.

Based on the above three elements financial sustainability could be defined as follows:

*“A council’s **long-term financial performance and position is sustainable where planned longterm services and infrastructure levels and standards are met without unplanned increases in rates and service charges or disruptive cuts to services.**”*

Three key financial indicators or ratios were developed to influence long-term financial sustainability planning and budgeting. They are:

- a) An **operating surplus ratio** to influence financial performance planning and budgeting;
- b) A **net financial liabilities ratio** to influence financial position planning and budgeting; and
- c) An **asset sustainability ratio** to influence asset management performance planning and budgeting.

1.16 MSCOA PROGRESS TO DATE

The Municipal Regulations on the Standard Chart of Accounts (mSCOA) was duly promulgated on 22 April 2014 and all municipalities were expected to be compliant by 1 July 2017. All relevant segments as prescribed by the regulation was implemented and the municipality is currently in the process of refining certain segments already in use in order to ensure that information will be disclosed as required in terms of version 6.4 as prescribed.

It should be noted that the municipality is not mSCOA compliant. All required in-year as well as annual data strings have been submitted successfully until December 2019 and the outdating data strings was as a results of non-functional of the ITC infrastructure(server).

1.17 LEGISLATION COMPLIANCE STATUS

Compliance with the MFMA implementation requirements have been substantially adhered to through the following activities

- **In year reporting,** Reporting to National Treasury in electronic format was fully complied with on a monthly basis. Section 71 reporting to the Executive Mayor through finance portfolio committee (within 10 working days) has progressively improved and includes monthly published financial performance on the Free state government website.
- **Internship programme,** The Municipality is participating in the Municipal Financial Management Internship programme and has employed five interns and they all undergoing training within various divisions of the Financial Services Department.

- **Budget and Treasury Office**, The Budget and Treasury Office has been established in accordance with the MFMA and it is headed by the Chief Financial Officer. The Budget steering committee was also established.
- **Audit and Risk Committees**, An Audit and Risk Committees have been established and are fully functional.
- **Service Delivery and Budget Implementation Plan**, The detail SDBIP document is at a draft stage and will be finalised after approval of the 2020/2021 MTREF in June 2020 directly aligned and informed by the 2020/21 MTREF.
- **Annual Report**, Annual report is compiled in terms of the MFMA and National Treasury requirements.

1.18 PROCUREMENT PLAN

In terms of Municipal Budget Circular No 94 for the 2019/20 MTREF, it is mentioned about slow spending of capital budgets by most municipalities and the negative impact of this on service delivery. It was therefore required that all municipalities compile a procurement plan to address a weak planning process.

1.19 RECOMMENDATIONS

It is recommended that:

- 1.19.1 Council approves the draft 2020/2021 to 2022/2023 Medium Term Revenue and Expenditure Framework attached as Annexure A to the item.
- 1.19.2 Council approves the draft operating budget revenue of R244 349 613.91 for the 2020/2021 financial year.
- 1.19.3 Council approves the draft operating budget expenditure of R417 080 612.97 for the 2020/2021 financial year
- 1.19.4 Council approves the draft capital budget expenditure funding sources of R41 493 496 for the 2020/2021 financial year.
- 1.19.5 Council to take note of the operating deficit of R172,7 million, R177,5 million and R185.9million for the 2020/21, 2021/22, 2022/23 respectively;
- 1.19.6 Council approves the draft tariff increase of 4.5% across the board.

- 1.19.7 Council approves the draft budget related policies attached as Annexure B to the item.
- 1.19.8 Council takes note of the proposed salary total cost to municipality expenses of the Mayor, Speaker, Exco members, Portfolio committee chairpersons, Ordinary council members, Municipal Manager, Chief Financial Officer and Directors as set out in the draft 2020/2021 to 2022/2023 MTREF Budget report.
- 1.19.9 Council takes note that Municipal Manager in terms of legislation will invite the local community through advertisements in the local press to submit representations in connection with the 2020/2021 draft operational and capital budget as required by the MFMA and the Municipal Systems Act.
- 1.19.10 Council approves the cancellation of IDP and Budget roadshow programs due to gatherings being prohibited by the Regulations issued in terms of Section 27 (2) of the Disaster Management Act in Government Gazette No 43107 dated 18 March 2020, as a result of the COVID-19 infectious disease being declared as global pandemic.
- 1.19.11 That Council takes note that section 16, subsection 2 of the Municipal Finance Management Act (tabling of the draft budget 90 days before the start of the budget year) was not complied with due to the declaration of the National Disaster and subsequent introduction of covid-19 lockdown by the President on the 27th March 2020;
- 1.19.12 That the funding plan be tabled to Council together with the final budget in line with the MFMA Budget and Reporting Regulations and Treasury guideline circulars,
- 1.19.13 That the final annual budget be approved on/or before the start of the budget year in line with section 24, subsection 2(a) of the Municipal Finance Management.

1.19 APPENDICES

Appendix 1: MFMA Budget Circular No 98 dated 6 December 2019;

Appendix 2: MFMA Budget Circular No 99 dated 9 March 2020;

Appendix 3: Tariff List.

Appendix A: Draft 2020/2021 to 2022/2023 MTREF (A schedule) and;

Appendix B: Draft 2020/2021 budget related policies;